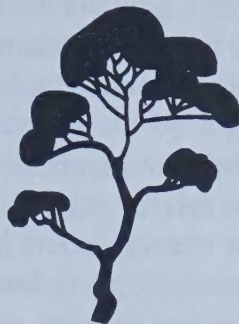


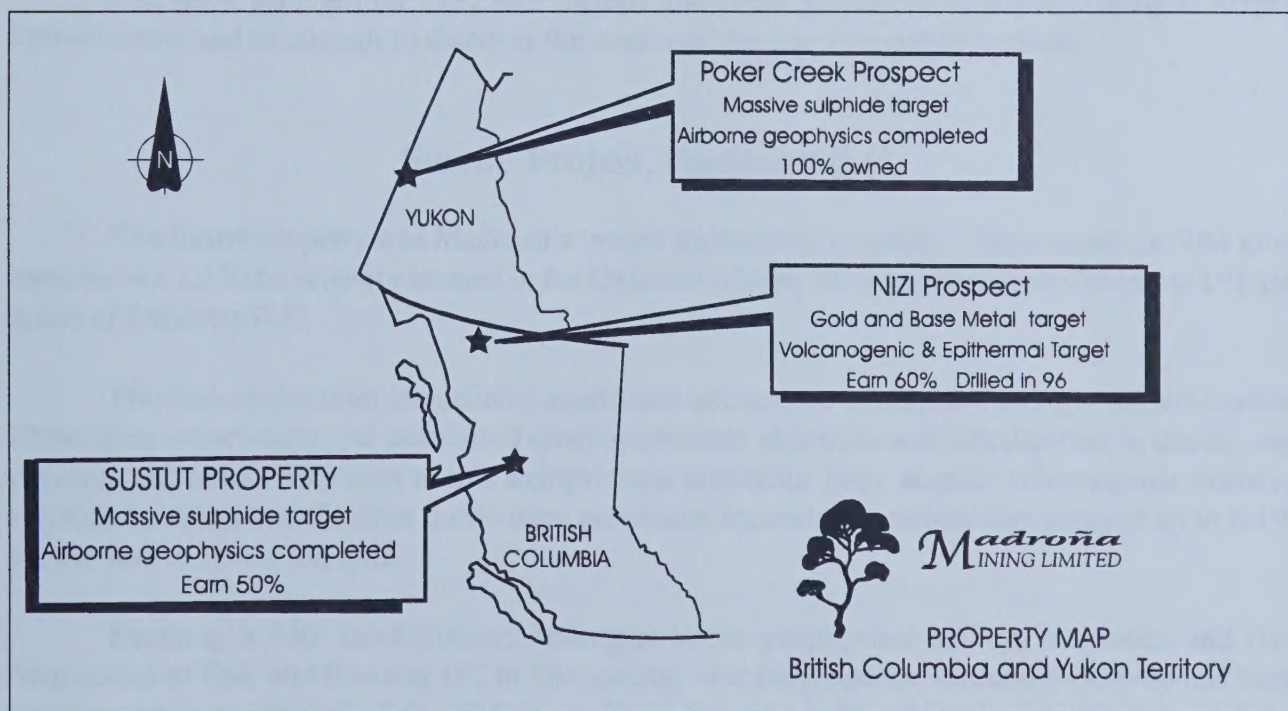
## Annual Report

Madrona had an active year in exploration after completing its major transaction in April 1996. As part of its more active profile, a new logo (*below*) showing the Madrona tree (*called Arbutus tree in Canada*) now enhances our corporate image of growth.



**Madrona**  
MINING LIMITED

Summary of exploration on the properties is presented below.







## **Nizi Prospect, Northern B.C.**

Previous drilling on the Nizi property located a zone of sericite alteration averaging 5.73 grams per tonne (0.167 opt) over 13.77 metres (45 feet). Values up to 1.2 oz/ton Au (gold) and 22.3 oz/ton Ag (silver) over 1.5 metres in a quartz vein stockwork in rhyolite were reported on surface. In 1996 a total of five holes totalling 3,000 feet from three sites were drilled in order to further evaluate the gold and base metal potential of the prospect. A prospective strata of dacitic and rhyolitic volcanics overlying an andesitic base were identified. These rock units consisted of highly altered andesitic to rhyolitic volcanics cut by high level breccias showing multiple stages of fracturing and characteristics of epithermal low-sulphidization mineralization including open-space fillings and extensive pyrite development. Styles of mineralization are identified in this volcanic environment are: (a) an epithermal breccia system with numerous stages of fracturing and veining as typified by the high grade gold and silver, (b) potential for bulk tonnage gold supported by several intersections of 5-25 feet in dacitic breccias and volcanics with tenors 1-2 g/t gold. (c) clasts of bedded massive sulphide in some of the breccias, indicative of proximity to a possible massive sulphide deposit in the adjacent and underlying volcanics. Highest grade obtained in 1996 was 10 feet of 14.908 g/t (.525 opt) gold and 154.65 g/t (5.5 opt) silver. Widest intersection indicative of bulk gold potential was 25 feet of 2.178 g/t gold and 23.46 g/t silver.

The work program for 1997 will include additional ground surveys and drilling to extend known zones and to attempt to discover the source of the massive sulphide clasts.

## **Sustut Project, Northern B.C.**

The Sustut property was Madrona's 'major transaction' property. The property, a 50% joint venture, is a 2,550 ha property located in the Omineca Mining Division of British Columbia 192 km north of Smithers B.C.

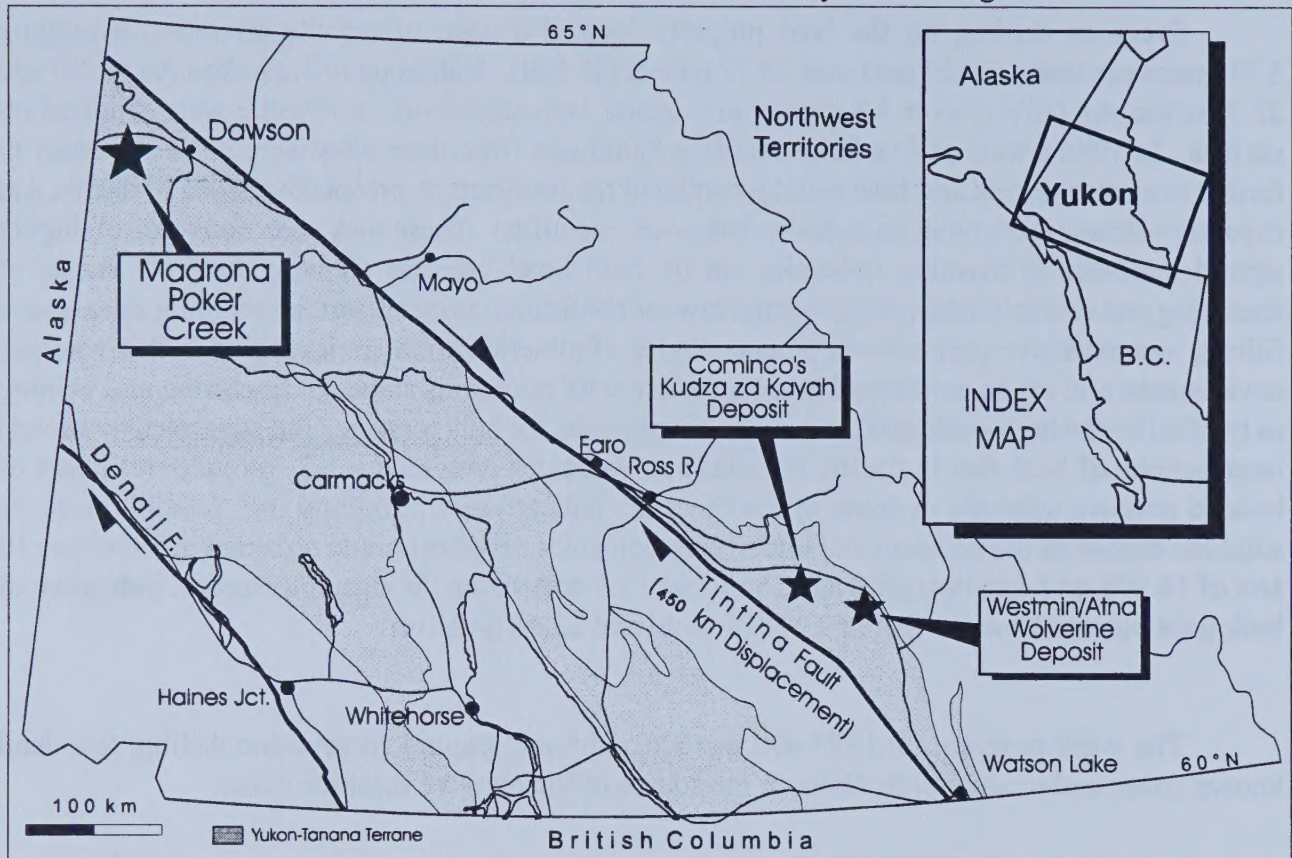
Previous exploration identified a significant occurrence of sulphide stringer mineralization (Porcupine occurrence) and associated quartz-carbonate alteration and silicification in dacitic and rhyolitic volcanics. Adjacent to this stringer zone numerous large angular volcanogenic massive sulphide boulders in a siliceous dacite were previously located. These boulders assayed up to 6.1% copper and 0.233 oz/ton gold.

Recently a 340 line-kilometre helicopter-borne geophysical survey, magnetics and five frequencies of EM, was flown at 100 m line spacing over the property. Ground follow-up has been recommended on several of the EM anomalies. One anomaly, which lies within 2 km of the Porcupine occurrence, contains numerous gossans and occurrences of spotty malachite with fine pyrite in siliceous andesite. Grab samples from the area of this anomaly returned values up to 69.6 ppm Silver and more than 1% copper.

Detailed prospecting discovered mineralization associated with the geophysical anomaly as mentioned above as well as a new occurrence in a shear zone. Grab samples from the shear zone returned up to 1.92 g/t gold, more than 200 ppm silver and more than 1% copper. A program of



further prospecting, geological mapping and ground geophysics over several of the geophysical anomalies has been recommended. This would be followed by drill testing if results warrant.



### Poker Creek, Yukon

Madrona acquired a 100% interest in the Poker Creek Prospect in 1996. The property consists of 74 mineral claims with an area of 1425 ha and lies west of Dawson city along the Alaska Border in Yukon. The property was acquired on the basis of patterns of base metal geochemical anomalies occurring downstream from magnetic high on the government magnetic map. The area lies within the Yukon-Tanana Terrane, a geologic region which contains the same suite of rock units that host Cominco's Kudza za Kayah and Atna/Westmin's Wolverine volcanogenic massive sulphide deposits in Southern Yukon. Prior to the 450 km. displacement along the Tintina Fault, the Poker Creek prospect was situated close to those deposits.

Madrona contracted for an airborne geophysical survey in the Fall of 1996 to enhance and define the magnetic feature observed on the government map and to help define the property geology. The area is heavily covered by overburden with few rock outcrops. The results from the airborne geophysical survey show a very strong positive magnetic feature over the old government survey feature and it corresponds with a favourable rock unit (Nasina Metavolcanics) identified in recent geological mapping of the area. This indicates the potential for a base metal deposit. In other portions of the claim block, the magnetic signature suggests the possibility of buried intrusive, potential porphyry copper-gold targets.



**MADRONA MINING LIMITED**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1996**

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**David L. Patrino**

CHARTERED ACCOUNTANT



David L. Patrino

PROFESSIONAL CORPORATION

CHARTERED ACCOUNTANT

## AUDITOR'S REPORT

To the Shareholders of  
Madrona Mining Limited

I have audited the balance sheet of Madrona Mining Limited as at September 30, 1995 and 1996 and the statements of income and retained earnings and changes in financial position for the periods then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1995 and 1996 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

Calgary, Alberta  
January 16, 1997

CHARTERED ACCOUNTANT



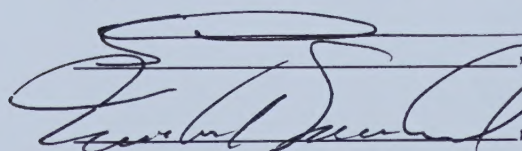
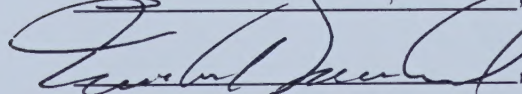
# MADRONA MINING LIMITED

## BALANCE SHEET

September 30	1996	1995
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 66,135	\$ 28,683
Short-term investments	343,420	325,374
Accounts receivable	13,046	1,951
	<b>422,601</b>	<b>356,008</b>
<b>MINERAL PROPERTIES AND DEFERRED COSTS, note 4</b>		
Schedule	291,943	-
<b>DEPOSITS</b>	<b>10,000</b>	<b>-</b>
	<b>\$ 724,544</b>	<b>\$ 356,008</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable	\$ 217,151	\$ 17,976
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL, note 5</b>	<b>515,028</b>	<b>340,552</b>
<b>RETAINED EARNINGS (DEFICIT)</b>	<b>(7,635)</b>	<b>(2,520)</b>
	<b>507,393</b>	<b>338,032</b>
	<b>\$ 724,544</b>	<b>\$ 356,008</b>

See Accompanying Notes

Approved on Behalf of the Board:

 Director  
 Director

**MADRONA MINING LIMITED**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**

	Year ended September 30 1996	Six months ended September 30 1995
REVENUE		
Interest income	\$ 18,045	\$ 374
EXPENSES		
Administration	8,950	894
Professional fees	3,883	2,000
Transfer agent and filing fees	10,327	-
	23,160	2,894
NET INCOME (LOSS) FOR THE PERIOD	(5,115)	(2,520)
Retained earnings (loss), beginning of period	(2,520)	-
RETAINED EARNINGS (LOSS), END OF PERIOD	\$ (7,635)	\$ (2,520)
EARNINGS PER SHARE	\$ -	\$ -

See Accompanying Notes



**MADRONA MINING LIMITED**  
**STATEMENT CHANGES IN FINANCIAL POSITION**

	Year ended September 30 1996	Six months ended September 30 1995
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (5,115)	\$ (2,520)
Changes in non-cash operating working capital items	188,080	16,025
	182,965	13,505
<b>INVESTING ACTIVITIES</b>		
Deposits	(10,000)	-
Expenditures on mineral properties	(291,943)	-
	(301,943)	-
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital	174,476	340,552
<b>INCREASE IN CASH DURING THE PERIOD</b>	<b>55,498</b>	<b>354,057</b>
Cash, beginning of period	354,057	-
<b>CASH, END OF PERIOD</b>	<b>\$ 409,555</b>	<b>\$ 354,057</b>
Cash	\$ 66,135	\$ 28,683
Short-term investments	343,420	325,374
	\$ 409,555	\$ 354,057

See Accompanying Notes

# MADRONA MINING LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1995 and 1996

---

### 1. INCORPORATION

The Corporation was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on April 7, 1995.

### 2. NATURE OF OPERATIONS

The Corporation is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore resources that are economically recoverable.

The recoverability of amounts shown as mineral properties and deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Corporation's interest in the underlying mineral claims, the ability of the Corporation to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Corporation.

#### Mineral Properties and Deferred Costs

Costs of acquisition, exploration and development of mineral properties are capitalized on an area of interest basis. Amortization of these costs will be on a unit of production basis, based on estimated proven reserves of minerals of the areas should such reserves be found. If an area of interest is abandoned or management has indicated that further development appears unlikely, the costs thereto will be charged to income in the year.

#### Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors. To recognize the foregone tax benefits to the Corporation, the carrying value of the mineral properties and deferred costs and the shares issued are recorded net of the tax benefits renounced to the shareholders.



# MADRONA MINING LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1995 and 1996

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### 4. MINERAL PROPERTIES AND DEFERRED COSTS

#### Sustut

The Corporation has an option to acquire a 50% participating interest in six contiguous mineral claims totalling 2,550 hectares in the Omenica Mining Division of North-Central British Columbia.

The Corporation will earn the 50% interest by incurring a total of \$235,000 in exploration expenditures on the property by November, 1998 with a minimum of \$75,000 in expenditures in any one year.

#### Nizi

The Corporation has an agreement to acquire up to a 60% participating interest in two mineral claims totalling 700 hectares in the Liard Mining Division of British Columbia.

The Corporation has the following ongoing commitments to earn the 60% interest:

- i) the issuance of 20,000 shares;
- ii) the payment of the following amounts:

\$20,000 by July 18, 1997

\$30,000 by July 18, 1998

\$60,000 by July 18, 1999

- iii) and the commencement of a drilling program starting in 1996 for a cost not to exceed \$380,000.

For each \$100,000 expended in exploration, Madrona will be deemed to have earned a 10% interest to a maximum of 60%.

#### Poker Creek

The Corporation has an agreement to earn a 100% interest in 74 mineral claims totalling 1425 hectares in the Central Yukon area.

# MADRONA MINING LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1995 and 1996

### 4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

The Corporation has the following ongoing commitments to earn its interest:

- i) the issuance of 100,000 common shares;
- ii) the payment of the following option amounts:

\$20,000 on or before May 1, 1997  
\$50,000 on or before May 1, 1998  
\$100,000 on or before May 1, 1999  
\$120,000 on or before May 1, 2000

- iii) and the conduct of up to \$30,000 of exploration work by May, 1997.

### 5. SHARE CAPITAL

Authorized

Unlimited number of common shares  
Unlimited number of first preferred shares  
Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights & privileges, restrictions and conditions attached to the shares of each series.

Issued	<u>Number</u>	<u>Amount</u>
For cash pursuant to private placement	1,267,000	\$ 95,025
For cash pursuant to a public offering (net of share issue costs of \$54,473)	<u>2,000,000</u>	<u>245,527</u>
Issued as at September 30, 1995	3,267,000	340,552
Private placement flow-through shares and warrants (net of foregone tax benefit of \$112,500)	1,250,000	137,500
Stock options exercised for cash	246,500	36,975
Private placement for an interest in the Sustut property	<u>100,000</u>	<u>1</u>
Issued as at September 30, 1996	<u>4,863,500</u>	<u>\$ 515,028</u>



# MADRONA MINING LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1995 and 1996

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### 5. SHARE CAPITAL (continued)

#### Stock Options

The Corporation has established a stock option plan for the benefit of directors and officers of the Corporation. As at September 30, 1996 options for 180,000 common shares were outstanding (1995 - 326,500 shares). The options may be exercised at a price of \$.15 per share until April 11, 2000.

As at September 30, 1996 an additional option for 100,000 common shares was outstanding (1995 - 200,000 shares). The options may be exercised at a price of \$.15 until April 15, 1997.

#### Share Purchase Warrants

1,250,000 share purchase warrants were issued in conjunction with the flow-through private placement. Each warrant entitles the holder to purchase 1 flow-through common share at \$.30 any time prior to May 6, 1997 (See note 8).

### 6. INCOME TAXES

The Corporation has non-capital losses of \$28,000 (1995 - \$13,000) which may be carried forward to reduce future taxable income. The right to claim these losses expires \$13,000 in 2002 and \$15,000 in 2003.

The Corporation has total exploration expenditures of \$266,000 (1995 - \$Nil) which may be carried forward indefinitely to be used to reduce future taxable income.

### 7. RELATED PARTY TRANSACTIONS

During the year ended September 30, 1996 the Corporation had the following transactions with related parties.

Issued to certain directors of the Corporation:

- 146,500 shares through the exercise of employee stock options.
- 380,000 flow-through shares and attached warrants through a private placement offering memorandum at \$.20 per share.

# MADRONA MINING LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1995 and 1996

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### 8. SUBSEQUENT EVENTS

Subsequent to September 30, 1996 the Corporation:

- i) issued 625,000 shares for proceeds of \$187,500 on the exercise of warrants;
- ii) issued 100,000 shares pursuant to the Poker Creek acquisition agreement.



**MADRONA MINING LIMITED**  
**SCHEDULE OF MINERAL PROPERTIES**

For the year ended September 30, 1996

	Balance October 1 1995	Expenditures (Disposals)	Balance September 30 1996
SUSTUT, BRITISH COLUMBIA			
Acquisition	\$ -	\$ 1	\$ 1
Exploration	-	79,127	79,127
	-	79,128	79,128
NIZI, BRITISH COLUMBIA			
Acquisition	-	10,000	10,000
Exploration	-	255,574	255,574
	-	265,574	265,574
POKER CREEK, YUKON			
Acquisition	-	10,000	10,000
Exploration	-	49,741	49,741
	-	59,741	59,741
	-	404,443	404,443
Income tax benefit foregone on renunciation of resource expenditure deductions	-	(112,500)	(112,500)
	\$ -	\$ 291,943	\$ 291,943

